Actuarial Association of Europe

Non-Life Working Group Update

INSURANCE COMMITTEE, COPENHAGEN

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General Update

- AFR/AFH guidance paper approved by the Officers and published on the AAE website.
- Undertaking Specific Parameters (USP) survey completed and results analysed.
- Drafted REFIT review on motor insurance EC consultation.
- Consideration of non-life future topics of interest to the IC.

Matthias Pillaudin

UNDERTAKING SPECIFIC PARAMETERS (USP)

USP Survey

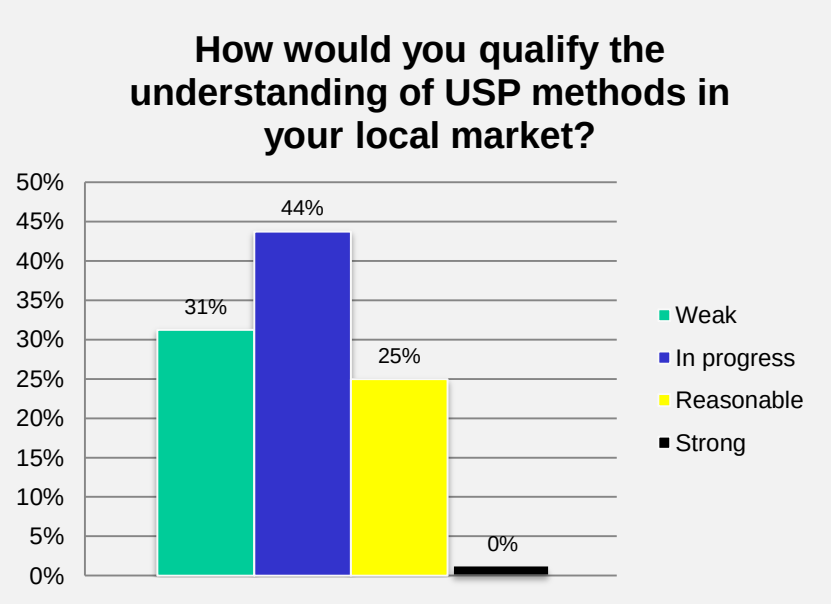
- We received a response from:
  - Denmark
  - Bulgaria
  - Ireland
  - Hungary
  - Slovakia
  - Italy
  - Austria
  - Netherlands
  - Croatia
  - Finland
  - United Kingdom
  - Greece
  - France
  - Cyprus
  - Spain
  - Lithuania
  - Germany
  - Norway
  - Serbia

Thank you for your participation !

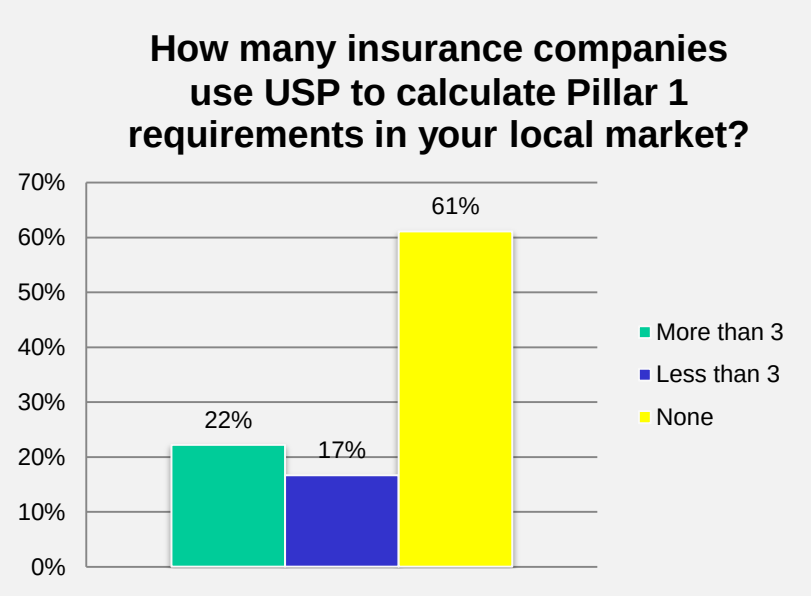
USP Survey

- Main findings of the survey
  - Few non-life insurance companies are using USP in their calculations.
  - Use of USPs is concentrated in some countries, more than 60% of the member states do not have any approved applications
  - The understanding of USP is relatively weak, perhaps due to lack of information or guidance from national regulators.
  - Obtaining approval is perceived as quite difficult perhaps due to satisfying the USP requirements on data.

USP Survey

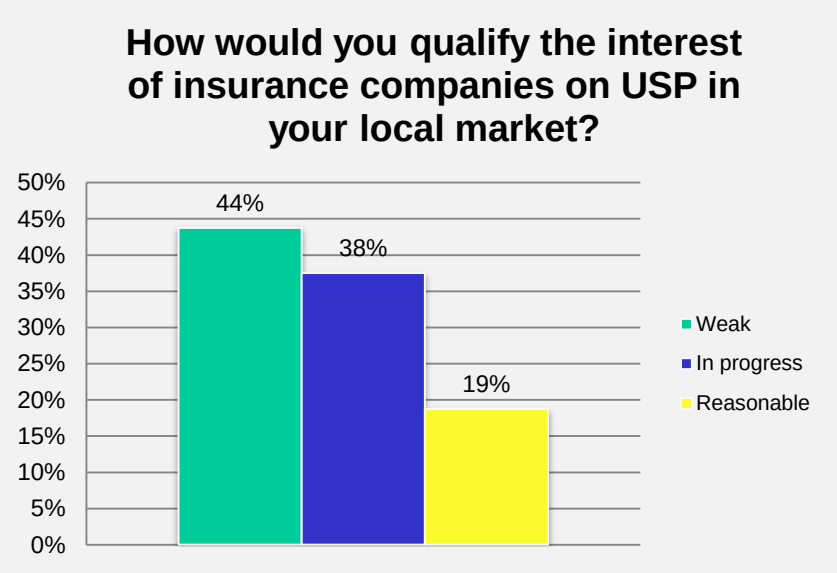


- More and more insurance companies are studying USP methods but the general understanding remains low.

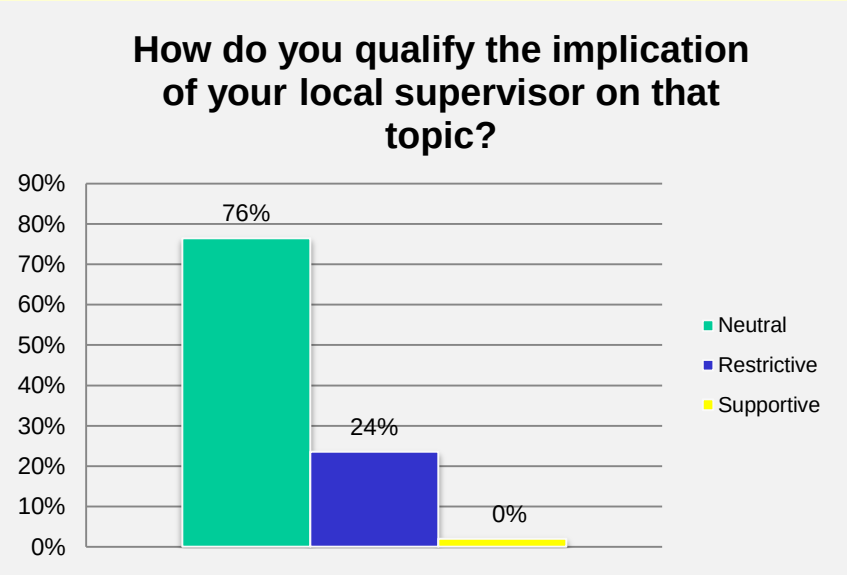


- The insurance companies using USP are mainly specialized in one line of business (only Non-Life) : motor insurance, legal expenses or Assistance
- More insurance companies use USP methods for their economic capital calculations

USP Survey

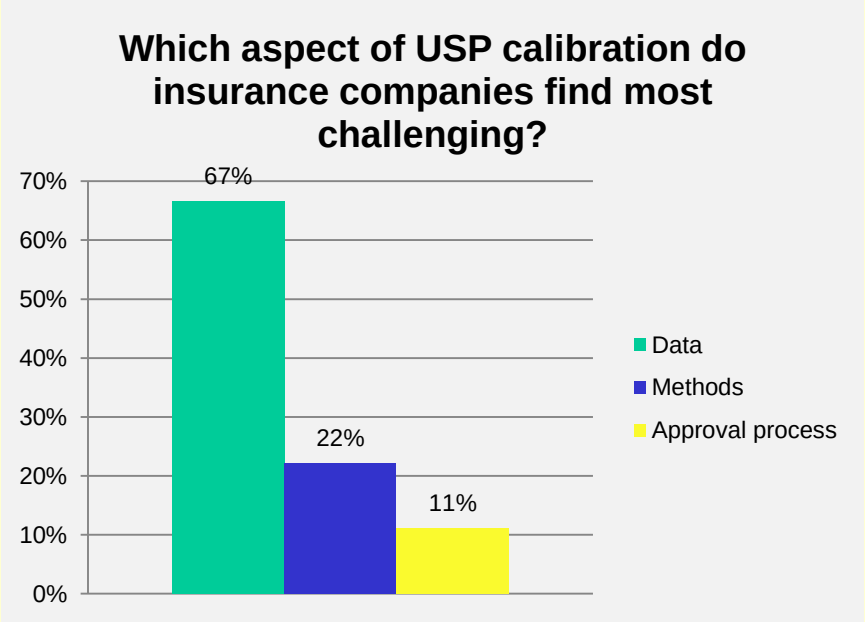


- More that half of the respondents consider that USP is a topic of interest in their market, either for capital relief or pillar II own risk assessment
- The weak interest in several countries may be driven by expected burden to get USPs approved.



- National supervisors are rather neutral to restrictive for companies to use USPs.
- Further, almost all respondents note there is hardly any guidance on the use of USPs provided by the national supervisors.

USP Survey



- Validating data appears as the most challenging aspect of USP calibration
- USP premium methods appear to be less understood than USP reserve methods by the market. In particular, the volatility of the results are criticized.

USP Survey

- Immediate next steps
  - A short paper to answer these questions:
    - Why are there so few insurance companies which using USP for their Pillar 1 requirements?
    - What are the possible obstacles ?
    - How to tackle them?
  - The paper aims to also gather existing information and available guidance in Europe.

- Future next steps
  - EAN addressed to European Actuaries?

REFIT REVIEW ON MOTOR INSURANCE

Workings

- Background
  - The NLWG leads on the AAE response to the EC consultation on REFIT review on motor insurance.
  - First draft was shared with the IC members on the 5th September.

- Approach
  - Focussed on actuarial issues and insights.
  - Messaging did not contradict to Insurance Europe public position.

- Next steps
  - Collate members' response by 2nd October.
  - Finalise the response and send it to Officers for approval before submitting it by the 20th October.

Key Messages

Portability of claims history

- Acknowledgement that claims history is a rating factor but including it in pricing models is a commercial decision.
- Transparency in policies on claims bonuses should be aimed for.

Insolvency

- Policyholders should have full protection in case of insurers' insolvency.
- Central fund or law provides this protection and enables greater mobility, ease of administration and consistency.

Scope of MID

- Compulsory MTPL may be appropriate for third party protection for agricultural, construction, industrial, motor sports or fairground activities.
- Care should be taken to avoid over-insurance potentially under public liability insurance.

Key Messages

Autonomous vehicles

- How autonomous vehicles should be insured depends on extent of manual intervention.
- If vehicles can be overriden, insurance can be akin to conventional cars but if fully autonomous, responsibilities arguably can be transferred to manufacturers or road structure through products liability or public liability.

Uninsured vehicles

- This is certainly an issue in some Member States.
- Reasons can include: unaffordability as too expensive, deliberate uninsure for wider criminal activities, unable to obtain cover, do not believe in insurance, etc.

Minimum cover

- Same minimum amount throughout the EU for consistency and mobility purposes.
- May be sensible to differentiate between different types of vehicles due to loss distributions, affordability and propensity to take cover.

Suggestions for Spring 2018

- A paper on USP researching obstacles, proposed solutions and collation of guidance and information available;

- A research in the evolution of risk mitigation techniques in non-life firms. Do actuaries have sufficient knowledge to understand the implications of new techniques on the work that we do; e.g. capital, reserving, pricing, risk.

QUESTIONS
COMMENTS
FEEDBACK